

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Charter Township of Orion</u>	County <u>Oakland</u>
Audit Date <u>December 31, 2003</u>	Opinion Date <u>March 31, 2004</u>	Date Accountant Report Submitted To State: <u>April 26, 2004</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address <u>27400 Northwestern Highway</u>	City <u>Southfield</u>	State <u>MI</u>	ZIP <u>48034</u>
Accountant Signature <i>Plante & Moran, PLLC</i>			

Charter Township of Orion Oakland County, Michigan

**Financial Report
with Supplemental Information
December 31, 2003**

Charter Township of Orion

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Independent Auditor's Report

To the Board of Trustees
Charter Township of Orion
Oakland County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Orion as of and for the year ended December 31, 2003, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Orion's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Orion as of December 31, 2003 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Orion's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A member of



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To the Board of Trustees
Charter Township of Orion
Oakland County, Michigan

As described in Note 12, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of January 1, 2003.

Plante & Moran, PLLC

March 31, 2004

Charter Township of Orion

Management's Discussion and Analysis

Our discussion and analysis of the Charter Township of Orion's financial performance provides an overview of Orion Township's financial activities for the fiscal year ended December 31, 2003. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2003:

- State-shared revenue, our largest revenue source in the General Fund, was reduced by the State of Michigan by approximately \$192,000 this year. To offset this, Orion Township closely monitored its spending in all other areas.
- Total fund balances related to the Township's governmental funds decreased by approximately \$403,000 due to large capital outlays in the Capital Improvement Funds.
- The Township incurred unexpected costs due to the April 2003 ice storm clean-up, implementation of the West Nile Virus program, and the special elections held in May and June 2003.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of Orion Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of Orion Township in more detail than the government-wide financial statements by providing information about Orion Township's most significant funds. The fiduciary fund statements provide financial information about activities for which Orion Township acts solely as a trustee or agent for the benefit of those outside the government.

Charter Township of Orion

Management's Discussion and Analysis (Continued)

The Township as a Whole

The following table shows, in a condensed format, the net assets as of the current date. Prior year numbers are not available (in thousands of dollars):

TABLE I

	Governmental Activities 2003	Business-type Activities 2003	Total 2003
Assets			
Current assets	\$ 22,359	\$ 29,813	\$ 52,172
Noncurrent assets	12,095	55,286	67,381
Total assets	34,454	85,099	119,553
Liabilities			
Current liabilities	7,079	1,341	8,420
Long-term liabilities	218	-	218
Total liabilities	7,297	1,341	8,638
Net Assets			
Invested in capital assets	12,095	34,795	46,890
Restricted	2,898	19,122	22,020
Unrestricted	12,164	29,841	42,005
Total net assets	<u>\$ 27,157</u>	<u>\$ 83,758</u>	<u>\$ 110,915</u>

The Township's combined net assets stood at \$110.9 million at 2003 year end. As we look at the governmental activities separately from the business-type activities, we can see that the net assets from governmental activities were \$27.1 million. The net assets for business-type activities are \$83.7 million. Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - stood at \$12.1 million for the governmental activities at the end of 2003, or about 75 percent of governmental activities expenditures. The restricted net assets and those invested in capital assets for government activities were \$15 million. The unrestricted net assets for business-type activities stood at \$29.8 million at year end, while the restricted net assets and those invested in capital assets are at \$54 million. The management's discussion and analysis will present a condensed comparative statement of net assets next year when we have two years of statements in the new GASB No. 34 format.

Charter Township of Orion

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year. Prior year numbers are not available (in thousands of dollars):

TABLE 2

	Governmental Activities 2003	Business-type Activities 2003	Total 2003
Revenue			
Program revenue:			
Charges for services	\$ 1,461	\$ 6,607	\$ 8,068
Operating grants and contributions	125	-	125
Capital grants and contributions	266	2,022	2,288
General revenue:			
Property taxes	5,971	-	5,971
State-shared revenue	2,325	-	2,325
Unrestricted investment earnings	314	1,913	2,227
Host fees	410	-	410
Transfers and other revenue	(412)	518	106
Total revenue	10,460	11,060	21,520
Program Expenses			
General government	2,259	-	2,259
Public safety	5,177	-	5,177
Public works	289	-	289
Health and welfare	153	-	153
Community and economic development	206	-	206
Recreation and culture	858	-	858
Water and sewer	-	7,638	7,638
Total program expenses	8,942	7,638	16,580
Change in Net Assets	\$ 1,518	\$ 3,422	\$ 4,940

Governmental Activities

The Township's total governmental revenues were approximately \$10,960,000, despite decreases in state-shared revenues and interest income. Of the Township's total revenue for fiscal year 2003, property taxes comprise the largest segment.

The Township incurred expenses of approximately \$9,442,000 during the year. The majority of governmental expense is associated with the public safety function, which includes both fire and police services.

Charter Township of Orion

Management's Discussion and Analysis (Continued)

Prior year comparatives are not available as this is the first year the Township implemented GASB No. 34 statements.

Business-type Activities

The Township's business-type activities consist of the Water and Sewer Fund. We provide water to approximately 80 percent of Township residents, which comes from the Detroit water system. We provide sewage treatment to approximately 80 percent of Township residents, through a City of Detroit-owned and operated sewage treatment plant, administered through Oakland County. Water usage was down due to the occasional idling of the GM plant located in Orion Township. The sewer usage increase was due to the addition of large development and commercial properties in the Township.

The Township's Funds

Our analysis of the Township's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not Orion Township as a whole. The Orion Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as property tax millages. The Township's major funds for 2003 include the General Fund, the Fire Protection Fund, the Police Protection Fund, and the Fire Capital Improvement Fund.

The General Fund pays for most of the Township's governmental services. The most significant are police and fire protection, which incurred expenses of approximately \$4,097,200 in 2003. These two services are partially supported by a special public safety millage, which is recorded in the Public Safety Fund. This fund records the receipts from the special millage and the transfer to the General Fund. The amount transferred to the General Fund is supported by a detailed calculation of the current year costs of the specific police and fire personnel positions hired in response to the millage, as well as specific capital outlay approved by the Orion Township Board of Trustees. In addition, the Fire Protection Fund transferred \$450,000 to the Fire Capital Improvement Fund for future procurement of fire stations and/or vehicles. The Fire Capital Improvement Fund incurred expenses of approximately \$1,650,000 for the purchase of four new fire trucks and an ambulance in 2003.

General Fund Budgetary Highlights

Over the course of the year, the Township Board made necessary budget adjustments to fund unanticipated expenses during the year. Budget amendments were made arising out of the April 2003 ice storm cleanup (\$110,000), costs incurred because of the West Nile Virus program (\$44,400), and costs associated with holding a special election (\$44,200). However, because all departments came in under budget at year end, there was a favorable variance of approximately \$800,000 from budget. Of this amount, the Township has designated \$125,000 to settle an outstanding clerical union contract in the General Fund.

Charter Township of Orion

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

At the end of 2003, the Township had \$46.9 million invested in a broad range of capital assets, including buildings, land, police and fire equipment, and water and sewer lines, among others. In addition, the Township has made certain investments in roads and drains within Orion Township. These assets are not reported in Orion Township fund statements because of Michigan law, which makes these drains and roads the property of Oakland County Drain and Road Commissions, respectively.

The Township has no outstanding debt as of 2003 year end.

Economic Factors and Next Year's Budget

Orion Township's budget for next year calls for a freeze on property tax rates. This can be accomplished because of the strong growth in our tax base. Because of the impact of Proposal A, however, the Township needs to continue to monitor its budget very closely. The statewide Tax Reform Act limits growth in taxable value on any individual property to the lesser of the inflation rate or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for Orion Township will grow by less than inflation, before considering new property additions.

As discussed above, we anticipate that the water rates will have to increase somewhat in 2004. We are in the process of evaluating the amount of increase that will be needed and will likely have a public hearing in 2004 to discuss the need for such an increase.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

Charter Township of Orion

Statement of Net Assets December 31, 2003

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and cash equivalents (Note 3)	\$ 8,259,685	\$ 10,395,637	\$ 18,655,322
Investments (Note 3)	6,745,139	15,047,049	21,792,188
Receivables - Net	6,010,994	5,072,337	11,083,331
Internal balances	702,015	(702,015)	-
Prepaid costs and other assets	640,999	-	640,999
Restricted assets (Note 1)	-	19,122,328	19,122,328
Capital and lateral fees receivable	-	1,368,521	1,368,521
Capital assets - Nondepreciable	3,685,470	-	3,685,470
Capital assets - Subject to depreciation - Net (Note 5)	8,409,038	34,794,938	43,203,976
Total assets	34,453,340	85,098,795	119,552,135
Liabilities			
Accounts payable	581,224	831,936	1,413,160
Accrued and other liabilities	127,787	34,021	161,808
Deferred revenue - Property taxes (Note 4)	6,302,019	475,091	6,777,110
Noncurrent liabilities (Note 7):			
Due within one year	67,678	-	67,678
Due in more than one year	218,275	-	218,275
Total liabilities	7,296,983	1,341,048	8,638,031
Net Assets			
Invested in capital assets	12,094,508	34,794,938	46,889,446
Restricted:			
Fire protection	657,512	-	657,512
Liquor law enforcement	52,395	-	52,395
Police protection	1,343,026	-	1,343,026
Safety path	845,225	-	845,225
Capital projects	-	19,122,328	19,122,328
Unrestricted	12,163,691	29,840,481	42,004,172
Total net assets	\$ 27,156,357	\$ 83,757,747	\$ 110,914,104

Charter Township of Orion

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 2,259,238	\$ 143,038	\$ -	\$ -
Public safety	5,176,794	982,221	-	-
Public works	289,416	50,701	-	236,586
Health and welfare	152,907	5,006	46,478	-
Community and economic development	206,103	90,832	78,896	-
Recreation and culture	857,657	189,111	-	29,600
Total governmental activities	8,942,115	1,460,909	125,374	266,186
Business-type activities - Water and sewer	7,637,454	6,607,173	-	2,021,728
Total primary government	<u>\$ 16,579,569</u>	<u>\$ 8,068,082</u>	<u>\$ 125,374</u>	<u>\$ 2,287,914</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Eagle Valley host fee				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended December 31, 2003

Net (Expense) Revenue and Changes in Net Assets

<u>Primary Government</u>		
<u>Governmental</u>	<u>Business-type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
\$ (2,116,200)	\$ -	\$ (2,116,200)
(4,194,573)	-	(4,194,573)
(2,129)	-	(2,129)
(101,423)	-	(101,423)
(36,375)	-	(36,375)
<u>(638,946)</u>	<u>-</u>	<u>(638,946)</u>
(7,089,646)	-	(7,089,646)
<u>-</u>	<u>991,447</u>	<u>991,447</u>
(7,089,646)	991,447	(6,098,199)
5,970,589	-	5,970,589
2,325,115	-	2,325,115
313,732	1,913,406	2,227,138
409,915	-	409,915
87,694	17,815	105,509
<u>(500,000)</u>	<u>500,000</u>	<u>-</u>
<u>8,607,045</u>	<u>2,431,221</u>	<u>11,038,266</u>
1,517,399	3,422,668	4,940,067
<u>25,638,958</u>	<u>80,335,079</u>	<u>105,974,037</u>
<u>\$ 27,156,357</u>	<u>\$ 83,757,747</u>	<u>\$ 110,914,104</u>

Charter Township of Orion

Governmental Funds Balance Sheet December 31, 2003

	General Fund	Fire Protection Fund	Police Protection Fund	Fire Capital Improvement Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 8,259,424	\$ 261	\$ -	\$ -	\$ -	\$ 8,259,685
Investments	3,448,586	-	-	-	3,296,553	6,745,139
Receivables:						
Property taxes	1,331,821	1,218,428	2,230,929	-	298,737	5,079,915
Interest	55,715	-	-	-	-	55,715
Other	-	-	1,297	-	32,102	33,399
Due from other governmental units	453,222	-	-	-	-	453,222
Due from other funds (Note 6)	1,825,964	3,408,697	2,323,895	2,398,959	4,483,174	14,440,689
Other assets	478,299	-	-	-	-	478,299
Prepaid expenses	11,217	-	-	-	151,483	162,700
Total assets	<u>\$ 15,864,248</u>	<u>\$ 4,627,386</u>	<u>\$ 4,556,121</u>	<u>\$ 2,398,959</u>	<u>\$ 8,262,049</u>	<u>\$ 35,708,763</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 160,038	\$ 3,366	\$ 335,932	\$ -	\$ 81,888	\$ 581,224
Other liabilities	72,474	41,213	-	-	-	113,687
Due to other funds	10,215,766	2,398,959	-	-	1,123,949	13,738,674
Due to other governmental units	14,100	-	-	-	-	14,100
Deferred revenue (Note 4)	1,630,634	1,526,336	2,824,768	-	395,240	6,376,978
Total liabilities	12,093,012	3,969,874	3,160,700	-	1,601,077	20,824,663
Fund Balances						
Reserved for prepaid expenses	11,217	-	-	-	151,483	162,700
Reserved for liquor law enforcement	-	-	52,395	-	-	52,395
Unreserved reported in:						
General Fund	3,760,019	-	-	-	-	3,760,019
Special Revenue Funds	-	657,512	1,343,026	-	65,097	2,065,635
Capital Project Funds	-	-	-	2,398,959	6,444,392	8,843,351
Total fund balances	<u>3,771,236</u>	<u>657,512</u>	<u>1,395,421</u>	<u>2,398,959</u>	<u>6,660,972</u>	<u>14,884,100</u>
Total liabilities and fund balances	<u>\$ 15,864,248</u>	<u>\$ 4,627,386</u>	<u>\$ 4,556,121</u>	<u>\$ 2,398,959</u>	<u>\$ 8,262,049</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	12,094,508
Receivables are expected to be collected over several years, and are not available to pay for current year expenditures	74,959
State revenue-sharing receivable expected to be collected over the next year, and is not available to pay for current year expenditures	388,743
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(285,953)

Net assets of governmental activities \$ 27,156,357

Charter Township of Orion

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2003

	General Fund	Fire Protection Fund	Police Protection Fund	Fire Capital Improvement Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue						
Taxes and penalties	\$ 1,376,790	\$ 1,482,475	\$ 2,747,680	\$ -	\$ 363,644	\$ 5,970,589
Licenses and permits	844,709	-	12,638	-	-	857,347
Eagle Valley fees	-	-	-	-	409,915	409,915
Federal grants	125,374	-	-	-	-	125,374
State sources	2,380,783	1,631	3,252	-	-	2,385,666
Interest	134,060	39,744	68,523	45,539	25,866	313,732
Special assessments	-	-	-	-	34,159	34,159
Other	739,603	36,218	233,188	-	67,711	1,076,720
Total revenue	5,601,319	1,560,068	3,065,281	45,539	901,295	11,173,502
Expenditures						
General government	2,501,456	-	-	-	-	2,501,456
Public safety	799,374	1,132,155	2,940,585	19,574	19,977	4,911,665
Public works	274,170	-	-	-	-	274,170
Health and welfare	277,842	-	-	-	-	277,842
Recreation and cultural	654,771	-	-	-	-	654,771
Capital outlay	39,699	24,538	-	1,630,525	689,307	2,384,069
Other	-	-	-	-	73,138	73,138
Total expenditures	4,547,312	1,156,693	2,940,585	1,650,099	782,422	11,077,111
Excess of Revenue Over (Under) Expenditures	1,054,007	403,375	124,696	(1,604,560)	118,873	96,391
Other Financing Sources (Uses)						
Transfer in	524,355	-	-	450,000	527,418	1,501,773
Transfer out	(1,027,418)	(450,000)	-	-	(524,355)	(2,001,773)
Total other financing sources (uses)	(503,063)	(450,000)	-	450,000	3,063	(500,000)
Net Change in Fund Balances	550,944	(46,625)	124,696	(1,154,560)	121,936	(403,609)
Fund Balances - January 1, 2003	3,220,292	704,137	1,270,725	3,553,519	6,539,036	15,287,709
Fund Balances - December 31, 2003	\$ 3,771,236	\$ 657,512	\$ 1,395,421	\$ 2,398,959	\$ 6,660,972	\$ 14,884,100

Charter Township of Orion

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2003

Net Change in Fund Balances - Total Governmental Funds \$ (403,609)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation 2,038,343

Certain revenues are recorded in the statement of activities when the revenue is earned; they are not reported in the funds until collected or collectible within 60 days of year end 17,266

Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (60,874)

Increase in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities (73,727)

Change in Net Assets of Governmental Activities \$ 1,517,399

Charter Township of Orion

Proprietary Funds Statement of Net Assets December 31, 2003

	Enterprise - Water and Sewer
Assets	
Current assets:	
Cash and cash equivalents	\$ 10,395,637
Investments	15,047,049
Receivables - Net:	
Water and sewer billings	1,310,021
Interest	3,064,718
Special assessments	697,598
Total current assets	30,515,023
Noncurrent assets:	
Restricted assets (Note 1)	19,122,328
Capital and lateral fees receivable	1,368,521
Property and equipment - Net (Note 5)	34,794,938
Total noncurrent assets	55,285,787
Total assets	85,800,810
Liabilities	
Current liabilities:	
Accounts payable	831,936
Due to other funds	702,015
Other liabilities	34,021
Deferred revenue	475,091
Total current liabilities	2,043,063
Net Assets	
Investment in capital assets - Net of related debt	34,794,938
Restricted	19,122,328
Unrestricted	29,840,481
Total net assets	\$ 83,757,747

Charter Township of Orion

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2003

	Enterprise - Water and Sewer
Operating Revenue	
Water charges	\$ 3,437,746
Sewer charges	2,766,536
Water connection charges	241,380
Charges for services	44,546
Other operating revenue	130,569
Total operating revenue	6,620,777
Operating Expenses	
Cost of water and sewage disposal	4,810,541
Depreciation	1,593,075
Salaries and fringe benefits	724,310
Utilities	28,194
Insurance	47,075
Professional services	109,323
Tools and supplies	148,432
Repairs and maintenance	113,921
Other operating expenses	61,054
Total operating expenses	7,635,925
Operating Loss	(1,015,148)
Nonoperating Revenue (Expense)	
Interest income	1,913,406
Interest expense	(1,529)
Gain on sale of fixed asset	4,211
Total nonoperating revenue	1,916,088
Income - Before capital contributions and transfers	900,940
Capital Contributions	
Capital and lateral charges	1,646,228
Developer contributions	375,500
Transfer - Installment income	500,000
Net Income	3,422,668
Net Assets - January 1, 2003	80,335,079
Net Assets - December 31, 2003	\$ 83,757,747

Charter Township of Orion

Proprietary Funds Statement of Cash Flows Year Ended December 31, 2003

	Enterprise - Water and Sewer
Cash Flows from Operating Activities	
Receipts from customers	\$ 6,754,239
Payments to suppliers	(5,377,434)
Payments to employees	(711,872)
Internal activity - Net payments from other funds	259,601
Other receipts	6,715
Net cash provided by operating activities	931,249
Cash Flows from Noncapital and Related Financing Activities - Installment income	500,000
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(50,782)
Proceeds from sale of fixed assets	4,211
Collection of special assessments	108,008
Capital and lateral charges	1,646,228
Net cash provided by capital and related financing activities	1,707,665
Cash Flows from Investing Activities	
Interest received on investments	1,667,035
Proceeds from sale of investment securities	1,846,955
Net cash provided by investing activities	3,513,990
Net Increase in Cash and Cash Equivalents	6,652,904
Cash and Cash Equivalents - Beginning of year	22,865,061
Cash and Cash Equivalents - End of year	\$ 29,517,965
Statement of Net Assets Classification of Cash and Cash Equivalents	
Cash and cash equivalents	\$ 10,395,637
Restricted assets - Cash and cash equivalents	19,122,328
Total cash and cash equivalents	\$ 29,517,965

Charter Township of Orion

Proprietary Funds Statement of Cash Flows (Continued) Year Ended December 31, 2003

	Enterprise - Water and Sewer
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (1,015,148)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	1,593,075
Changes in assets and liabilities:	
Receivables	(199,202)
Due to other funds	507,023
Accounts payable	(58,894)
Accrued and other liabilities	12,437
Due from other funds	91,958
Net cash provided by operating activities	<u><u>\$ 931,249</u></u>

Noncash Investing, Capital, and Financing Activities - During the year ended December 31, 2003, the Water and Sewer Fund received \$375,500 of lines donated by developers. During the current year, assets held at the County earned interest of approximately \$1,100. In addition, principal and interest payments of approximately \$90,400 were paid from those restricted assets.

Charter Township of Orion

Fiduciary Funds Statement of Fiduciary Net Assets - Agency Funds December 31, 2003

Assets - Cash	\$ 4,135,583
Liabilities	
Due to other governmental units	\$ 2,295,369
Deposits and building bonds	1,806,016
Other liabilities	<u>34,198</u>
 Total liabilities	 \$ 4,135,583

Charter Township of Orion

Notes to Financial Statements December 31, 2003

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Orion (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Charter Township of Orion:

Reporting Entity

The Charter Township of Orion is governed by an elected seven-member Board of Trustees. The accompanying financial statements present the Township; there are no component units that should be included in the Township's financial statements.

Jointly Governed Organization - The Township is a member of the North Oakland Transportation Authority, which provides transportation services to the residents of Orion Township, Oakland Township, and Oxford Township. The participating communities provide annual funding for its operations. During the current year, the Township contributed approximately \$29,000 for its operations. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the North Oakland Transportation Authority can be obtained from the administrative offices at 1370 South Lapeer Road, Oxford, MI 48371.

The Township is also a member of the Paint Creek Trailways Commission, which was organized in 1981 for the purposes of owning, developing, maintaining, and otherwise operating certain nonmotorized public trails within the jurisdiction of the participating governmental organizations. The participating communities, which include Orion Township (8 percent), City of Rochester (11 percent), City of Rochester Hills (37 percent), and Oakland Township (44 percent), provide annual funding for its operations. During the current year, the Township contributed approximately \$24,000 for its operations. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. The Township does have an equity interest in the joint venture. Complete financial statements for the Paint Creek Trailways Commission can be obtained from the administrative offices at 4393 Collins Road, Rochester, MI 48306.

Note 1 - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, special assessments will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Fire Protection Fund - This fund accounts for all revenue and expenditures for the Township's fire operations, including millage collection. The Township fire department also provides fire fighting services to the communities of Lake Angelus and Oakland Township on a contractual basis.

Police Protection Fund - This fund accounts for the Township's police protection contracted with Oakland County. This protection is funded through a special millage.

Fire Capital Improvement Fund - The Fire Capital Improvement Fund accounts for resources used for large capital expenditures of the Fire Fund.

The Township reports the following proprietary fund:

Enterprise Fund (Water and Sewer Fund) - The Water and Sewer Fund is used to account for the results of operations that provide a service to citizens that is financed primarily by a user charge for the provision of that service.

Charter Township of Orion

Notes to Financial Statements December 31, 2003

Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the Township reports the following fund types:

Agency Funds - The Agency Funds account for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales of water and sewer services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2002 tax is levied and collectible on December 1, 2002 and is recognized as revenue in the year ended December 31, 2003, when the proceeds of the levy are budgeted and available for the financing of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

The 2002 taxable valuation of the Township totaled \$1.50 billion (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of .9551 mills for operating purposes, 1.9459 mills for police services, .9943 mills for fire service, and .2442 for safety path. This resulted in \$1.46 million for operating, \$2.75 million for police services, \$1.48 million for fire service, and approximately \$370,000 for safety path. These amounts are recognized in the respective General, Special Revenue, and Capital Projects Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund is generally allocated to each fund using a weighted average.

Receivables and Payables - In general, outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.” All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - According to the Township’s ordinance, certain investments are restricted for future major repairs, replacements, or improvements to the water and sewer system. These amounts have been classified as restricted assets.

Charter Township of Orion

Notes to Financial Statements December 31, 2003

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, equipment, and infrastructure assets (e.g., roads, drains, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. The Township has not reported its safety path infrastructure assets acquired through December 31, 2002. In accordance with Governmental Accounting Standards Board Statement Number 34, the Township is not yet required under the four-year transition period to reflect these assets. The Township anticipates recording these assets in 2004. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Land improvements	15 years
Road usage rights	20 years
Water system	40 years
Sewer system	40 years
Drains	40 years
Buildings and improvements	40 years
Machinery and equipment	5 years
Office equipment	5 years
Vehicles	5 years

Compensated Absences (Vacation and Sick Leave) - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Township does not have a policy to pay any amounts when employees separate from service with the Township. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Charter Township of Orion

Notes to Financial Statements December 31, 2003

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Comparative Data - Comparative data is not included in the Township's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2001 is as follows:

Shortfall - January 1, 2003		\$	(651,575)
Current year building permit revenue			802,943
Related expenses:			
Direct costs	\$	(778,608)	
Estimated indirect costs		<u>(215,695)</u>	<u>(994,303)</u>
Net current year activity			<u>(191,360)</u>
Cumulative shortfall - December 31, 2003		\$	<u><u>(842,935)</u></u>

Charter Township of Orion

Notes to Financial Statements December 31, 2003

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Township has designated six banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investments in all of the allowable vehicles mentioned above.

The Charter Township of Orion's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	\$ 8,259,685	\$ 10,395,637	\$ 4,135,583	\$ 22,790,905
Investments	6,745,139	15,047,049	-	21,792,188
Restricted assets	-	19,122,328	-	19,122,328
Total	<u>\$ 15,004,824</u>	<u>\$ 44,565,014</u>	<u>\$ 4,135,583</u>	<u>\$ 63,705,421</u>

The breakdown between deposits and investments for the Township is as follows:

	Primary Government
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 45,899,831
Investments in securities, mutual funds, and similar vehicles	17,804,422
Petty cash or cash on hand	<u>1,168</u>
Total	<u>\$ 63,705,421</u>

Charter Township of Orion

Notes to Financial Statements December 31, 2003

Note 3 - Deposits and Investments (Continued)

Deposits

The bank balance of the Township's deposits is approximately \$46,116,000, of which approximately \$1,650,000 is covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

GAAP requires that investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the Township or its agent in the Township's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Township's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Township's name.

At year end, the Township's investment balances consisted of the following:

	Reported Amount (Fair Value)
Investments not subject to categorization:	
Bank investment pool funds	\$ 17,794,182
Interlocal agreement investment pool funds	10,240
Total primary government	<u>\$ 17,804,422</u>

Charter Township of Orion

Notes to Financial Statements December 31, 2003

Note 3 - Deposits and Investments (Continued)

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The bank investment pools and interlocal agreement investment pool are not categorized because they are not evidenced by securities that exist in physical or book entry form. The bank investment pools are regulated by the Michigan Banking Act. Investments under the interlocal agreement (MBIA-CLASS) are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and interlocal agreement pools is the same as the value of the pool shares.

Note 4 - Deferred Revenue

Statement of Net Assets

On the statement of net assets, the deferred revenue in the governmental activities represents property taxes levied on December 1, 2003, but recognized as revenue in the year ending December 31, 2004, when the proceeds of the levy are budgeted and available for financing operations.

Governmental Funds Balance Sheet

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue recorded on the governmental funds balance sheet are as follows:

	Unavailable	Unearned
Property taxes	\$ 74,959	\$ 6,302,019

Charter Township of Orion

Notes to Financial Statements December 31, 2003

Note 5 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance January 1, 2003	Additions	Disposals and Adjustments	Balance December 31, 2003
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 1,585,764	\$ -	\$ -	\$ 1,585,764
Land improvements	2,099,706	-	-	2,099,706
Subtotal	3,685,470	-	-	3,685,470
Capital assets being depreciated:				
Land improvements	1,122,634	649,360	-	1,771,994
Buildings and improvements	4,641,950	43,342	-	4,685,292
Road usage rights	3,462,255	288,998	-	3,751,253
Drains	162,542	68,725	-	231,267
Vehicles	2,244,688	1,643,443	116,599	3,771,532
Furniture and equipment	1,439,030	68,273	1,131	1,506,172
Subtotal	13,073,099	2,762,141	117,730	15,717,510
Accumulated depreciation:				
Land improvements	518,550	89,510	-	608,060
Buildings and improvements	1,294,243	110,274	-	1,404,517
Road usage rights	1,526,667	180,338	-	1,707,005
Drains	2,032	4,923	-	6,955
Vehicles	2,135,846	237,021	116,513	2,256,354
Furniture and equipment	1,225,065	101,647	1,131	1,325,581
Subtotal	6,702,403	723,713	117,644	7,308,472
Net capital assets being depreciated	6,370,696	2,038,428	86	8,409,038
Net capital assets	\$ 10,056,166	\$ 2,038,428	\$ 86	\$ 12,094,508

Charter Township of Orion

Notes to Financial Statements December 31, 2003

Note 5 - Capital Assets (Continued)

	Balance January 1, 2003	Additions	Disposals and Adjustments	Balance December 31, 2003
Business-type Activities				
Capital assets being depreciated:				
Land improvements	\$ 228,112	\$ -	\$ -	\$ 228,112
Water system	29,083,306	272,228	-	29,355,534
Sewer system	28,403,010	97,228	-	28,500,238
Buildings	518,858	-	-	518,858
Machinery and equipment	641,987	34,040	-	676,027
Office equipment	62,715	-	-	62,715
Vehicles	477,801	22,786	16,859	483,728
Subtotal	59,415,789	426,282	16,859	59,825,212
Accumulated depreciation:				
Land improvements	78,577	11,367	-	89,944
Water system	7,474,116	717,309	-	8,191,425
Sewer system	14,676,027	720,309	-	15,396,336
Buildings	506,267	12,590	-	518,857
Machinery and equipment	428,515	54,532	-	483,047
Office equipment	62,715	-	-	62,715
Vehicles	227,841	76,968	16,859	287,950
Subtotal	23,454,058	1,593,075	16,859	25,030,274
Net capital assets being depreciated	35,961,731	(1,166,793)	-	34,794,938
Net capital assets	\$ 35,961,731	\$ (1,166,793)	\$ -	\$ 34,794,938

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 119,277
Public safety	273,024
Public works	194,653
Health and welfare	17,806
Recreation and culture	118,953
Total governmental activities	<u>\$ 723,713</u>

Charter Township of Orion

Notes to Financial Statements December 31, 2003

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Safety Path Fund	\$ 351,177
	Host Fee Fund	772,772
	Water and Sewer Fund	<u>702,015</u>
Total General Fund		1,825,964
Fire Protection Fund	General Fund	3,408,697
Police Protection Fund	General Fund	2,323,895
Fire Capital Improvement Fund	Fire Protection Fund	2,398,959
Other nonmajor governmental funds:		
Keatington Mill Lake Lights Fund	General Fund	2,157
Elkhorn Lake Fund	General Fund	9,074
Square Lake Fund	General Fund	19,661
Lake Orion Canals Fund	General Fund	7,200
Compensated Absences Fund	General Fund	50,000
Capital Improvement Fund	General Fund	4,292,412
Friendship Park Fund	General Fund	<u>102,670</u>
Total other nonmajor governmental funds		<u>4,483,174</u>
Total interfund receivables		<u>\$ 14,440,689</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. In addition, several funds do not have separate bank accounts and, therefore, the General Fund holds their respective cash and investments.

Charter Township of Orion

Notes to Financial Statements December 31, 2003

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Water and Sewer Fund	\$ 500,000
	Other Governmental Funds	527,418
Fire Protection Fund	Fire Capital Improvement Fund	450,000
Other governmental funds	General Fund	<u>524,355</u>
Total		<u>\$ 2,001,773</u>

The transfer from the General Fund to the Water and Sewer Fund represents transfers to help defray the cost for the Hi Hill project. The transfer from the General Fund to the other governmental funds (Capital Improvement Fund) represents the use of unrestricted resources to finance future construction projects. The transfer from the Fire Protection Fund to the Fire Capital Improvement Fund represents the movement of resources to be used for fire capital improvements. The transfer from the other governmental funds (Host Fee Fund) to the General Fund represents a \$500,000 transfer of unrestricted resources.

Note 7 - Noncurrent Liabilities

Noncurrent liabilities consist of the following:

	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities				
Property tax tribunal cases	\$ 159,000	\$ -	\$ 159,000	\$ -
Self-insurance reserve	4,050	-	4,050	-
Accumulated employee compensated absences	<u>49,177</u>	<u>73,726</u>	<u>122,903</u>	<u>67,678</u>
Total governmental activities	<u>\$ 212,227</u>	<u>\$ 73,726</u>	<u>\$ 285,953</u>	<u>\$ 67,678</u>

Note 8 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefits provided to employees, participates in the Michigan Municipal League risk pool for claims relating to workers' compensation, and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the Township.

The Township estimates the liability for general claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are reflected in the government activities column on the statement of net assets. Changes in the estimated liability for the past two years were as follows:

	2003	2002
Estimated liability - Beginning of year	\$ 4,050	\$ 49,530
Estimated claims incurred, including changes in estimates	11,212	(21,988)
Claim payments	(11,212)	(23,492)
Estimated liability - End of year	<u>\$ 4,050</u>	<u>\$ 4,050</u>

Charter Township of Orion

Notes to Financial Statements December 31, 2003

Note 9 - Designated Fund Balance

The following is a summary of the unreserved fund balances of the governmental funds that management has designated:

	General Fund	Fire Protection Fund	Police Protection Fund	Fire Capital Improvement Fund	Capital Improvement Fund	Friendship Park Fund	Safety Path Improvement Fund
Designated for:							
Subsequent year's expenditures	\$ 148,855	\$ 126,547	\$ 74,062	\$ 760,000	\$ 181,886	\$ 45,311	\$ 267,913
Repair and maintenance	-	-	-	-	-	-	318,075
Retention of officers	-	-	1,179,115	-	-	-	-
Total designated	<u>\$ 148,855</u>	<u>\$ 126,547</u>	<u>\$ 1,253,177</u>	<u>\$ 760,000</u>	<u>\$ 181,886</u>	<u>\$ 45,311</u>	<u>\$ 585,988</u>

Note 10 - Defined Contribution Pension Plan

The Township provides pension benefits to substantially all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after six months from the time of employment. As established by the Township Board of Trustees, the Township contributes 10 percent of most employees' gross earnings (with varying rates for DPW employees).

The Township's contributions for each employee are fully vested after 20 months of continuous service. Employees may contribute to the plan on a voluntary basis. In accordance with these requirements, the Township contributed \$215,542 during the current year.

Note 11 - Other Postemployment Benefits

The Township has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The plan allows the Township to contribute, on behalf of its eligible employees, portions of its employees' salary and/or compensated absences to meet its employees' postemployment health care needs. For the fiscal year ended December 31, 2003, the Township made payments for postemployment health benefit premiums of \$144,000.

Note 12 - Accounting and Reporting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Township of Orion has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The Township has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure in the current year (with the exception of retroactive reporting of the Township's safety paths). Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Township's activities, including infrastructure (road usage rights, drains, etc.)
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets includes infrastructure assets (road usage rights, bridges, etc.) not previously accounted for by the Township as well as assets totaling approximately \$13,850,000 that would previously have been reported in the General Fixed Assets Account Group
- Capital assets at January 1, 2003 previously reported in the General Fixed Assets Account Group have been adjusted by approximately \$700,000 to reflect the historical cost of the Township's capital assets at that date.
- The beginning net assets of the governmental activities column is net of long-term obligations totaling \$212,227 previously reported in the General Long-term Debt Account Group.
- The Liquor Law Fund (previously a separate Special Revenue Fund) was combined with the Police Fund as of January 1, 2003.
- The Library Debt Service Fund (previously a Debt Service Fund) was combined with the General Fund as of January 1, 2003.

Required Supplemental Information

Charter Township of Orion

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2003

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Taxes and penalties	\$ 1,424,160	\$ 1,424,160	\$ 1,376,790	\$ (47,370)
Licenses and permits	683,050	683,050	844,709	161,659
Federal grants	77,111	77,111	125,374	48,263
State sources	2,659,148	2,659,148	2,380,783	(278,365)
Interest	225,000	181,183	134,060	(47,123)
Other	575,956	641,373	739,603	98,230
Transfers in	25,000	525,000	524,355	(645)
Total revenue	5,669,425	6,191,025	6,125,674	(65,351)
Expenditures				
General government:				
Township Board	54,100	54,100	38,532	15,568
Supervisor	301,400	301,400	300,495	905
Elections	6,750	50,950	49,280	1,670
Assessing	455,490	455,490	376,342	79,148
Attorney fees	180,000	201,600	201,470	130
Finance	30,000	30,000	19,910	10,090
Clerk	406,700	406,700	349,621	57,079
Board of Review	4,000	4,000	1,320	2,680
Treasurer	292,800	292,800	263,039	29,761
Building department	-	-	-	-
Building and grounds	318,455	327,168	315,546	11,622
Drainage projects	214,000	184,250	81,548	102,702
Other general services	632,594	754,744	504,353	250,391
Total general government	2,896,289	3,063,202	2,501,456	561,746
Public safety:				
Zoning Board of Appeals	12,000	12,000	9,829	2,171
Building inspection	888,650	890,650	771,590	119,060
Planning Commission	30,130	30,130	17,730	12,400
Civil defense - Tornado sirens	500	500	225	275
Total public safety	931,280	933,280	799,374	133,906
Public works - Highways and streets	280,862	280,862	274,170	6,692

Charter Township of Orion

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended December 31, 2003

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures (Continued)				
Health and welfare:				
Community development block grant	\$ 77,111	\$ 105,511	\$ 77,116	\$ 28,395
Community services	66,300	105,300	69,791	35,509
Senior center	152,487	152,487	130,935	21,552
Total health and welfare	295,898	363,298	277,842	85,456
Recreation and cultural - Parks and recreation	675,878	670,408	654,771	15,637
Capital outlay	61,800	95,257	39,699	55,558
Transfers to other funds	527,418	1,027,418	1,027,418	-
Total expenditures	5,669,425	6,433,725	5,574,730	858,995
Excess of Revenue Over (Under) Expenditures	\$ -	\$ (242,700)	\$ 550,944	\$ 793,644

Charter Township of Orion

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended December 31, 2003

Fire Protection Fund

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Taxes and penalties	\$ 1,482,610	\$ 1,482,610	\$ 1,482,475	\$ (135)
State sources	1,500	1,700	1,631	(69)
Interest	35,000	40,000	39,744	(256)
Other	165,500	160,300	36,218	(124,082)
Total revenue	1,684,610	1,684,610	1,560,068	(124,542)
Expenditures				
Salaries and employee benefits	895,827	900,727	888,514	12,213
Supplies	29,100	33,100	31,817	1,283
Utilities	37,500	37,500	27,095	10,405
Repairs and maintenance	72,000	89,300	76,013	13,287
Insurance	97,150	88,250	83,593	4,657
Capital outlay	25,000	25,000	24,538	462
Other public safety expenditures	78,033	60,733	25,123	35,610
Transfers to other funds	450,000	450,000	450,000	-
Total expenditures	1,684,610	1,684,610	1,606,693	77,917
Excess of Expenditures Over Revenue	\$ -	\$ -	\$ (46,625)	\$ (46,625)

Charter Township of Orion

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended December 31, 2003

Police Protection Fund

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Taxes and penalties	\$ 2,716,189	\$ 2,716,189	\$ 2,747,680	\$ 31,491
Licenses and permits	6,000	6,000	12,638	6,638
State sources	-	-	3,252	3,252
Interest	125,000	125,000	68,523	(56,477)
Other	190,450	190,450	233,188	42,738
Total revenue	3,037,639	3,037,639	3,065,281	27,642
Expenditures				
Salaries and employee benefits	2,810,103	2,837,703	2,837,625	78
Supplies	6,000	5,550	5,420	130
Utilities	64,960	91,560	91,430	130
Repairs and maintenance	2,000	1,500	1,410	90
Capital outlay	20,000	-	-	-
Other public safety expenditures	134,576	101,326	4,700	96,626
Total expenditures	3,037,639	3,037,639	2,940,585	97,054
Excess of Revenue Over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 124,696</u>	<u>\$ 124,696</u>

Charter Township of Orion

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended December 31, 2003

Fire Capital Improvement Fund

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Interest	\$ 25,000	\$ 45,600	\$ 45,539	\$ (61)
Transfers from other funds	<u>450,000</u>	<u>450,000</u>	<u>450,000</u>	<u>-</u>
Total revenue	475,000	495,600	495,539	(61)
Expenditures				
Capital outlay	1,190,000	1,630,700	1,630,525	175
Miscellaneous expenditures	<u>30,000</u>	<u>20,600</u>	<u>19,574</u>	<u>1,026</u>
Total expenditures	<u>1,220,000</u>	<u>1,651,300</u>	<u>1,650,099</u>	<u>1,201</u>
Excess of Expenditures Over Revenue	<u>\$ (745,000)</u>	<u>\$ (1,155,700)</u>	<u>\$ (1,154,560)</u>	<u>\$ 1,140</u>

Charter Township of Orion

Note to Required Supplemental Information December 31, 2003

Note - Budgetary Information

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds, with the exception of operating transfers, which have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)." All annual appropriations lapse at fiscal year end. The annual budget is prepared by the Township Supervisor and adopted by the Township Board; subsequent amendments are approved by the Township Board. During the year, the budget was amended in a legally permissible manner.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity basis.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Township did not have any significant expenditure budget variances.

Other Supplemental Information

Charter Township of Orion

	Special Revenue Funds					
	Keatington Mill Lake Lights Fund	Elkhorn Lake Fund	Square Lake Fund	Lake Orion Canal Fund	Compensated Absence Fund	Host Fee Fund
Assets						
Investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,175,149
Property taxes receivable	-	-	-	-	-	-
Other receivables	-	-	-	-	-	32,102
Prepaid expenses	-	-	-	-	-	-
Due from other funds	<u>2,157</u>	<u>9,074</u>	<u>19,661</u>	<u>7,200</u>	<u>50,000</u>	<u>-</u>
Total assets	<u>\$ 2,157</u>	<u>\$ 9,074</u>	<u>\$ 19,661</u>	<u>\$ 7,200</u>	<u>\$ 50,000</u>	<u>\$ 2,207,251</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ -	\$ -	\$ 2,098	\$ -	\$ -	\$ 78
Due to other funds	-	-	-	-	-	772,771
Deferred revenue	<u>1,345</u>	<u>9,001</u>	<u>5,001</u>	<u>5,550</u>	<u>-</u>	<u>-</u>
Total liabilities	1,345	9,001	7,099	5,550	-	772,849
Fund Balances						
Reserved for prepaid expenses	-	-	-	-	-	-
Unreserved:						
Designated for subsequent year's expenditures	-	-	-	-	-	-
Designated for repairs and maintenance	-	-	-	-	-	-
Undesignated	<u>812</u>	<u>73</u>	<u>12,562</u>	<u>1,650</u>	<u>50,000</u>	<u>1,434,402</u>
Total fund balances	<u>812</u>	<u>73</u>	<u>12,562</u>	<u>1,650</u>	<u>50,000</u>	<u>1,434,402</u>
Total liabilities and fund balances	<u>\$ 2,157</u>	<u>\$ 9,074</u>	<u>\$ 19,661</u>	<u>\$ 7,200</u>	<u>\$ 50,000</u>	<u>\$ 2,207,251</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2003**

Capital Projects Funds			
Capital Improvement Fund	Friendship Park Fund	Safety Path Improvement Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 1,121,404	\$ 3,296,553
-	-	298,737	298,737
-	-	-	32,102
-	-	151,483	151,483
<u>4,292,412</u>	<u>102,670</u>	<u>-</u>	<u>4,483,174</u>
<u>\$ 4,292,412</u>	<u>\$ 102,670</u>	<u>\$ 1,571,624</u>	<u>\$ 8,262,049</u>
\$ 78,065	\$ 769	\$ 878	\$ 81,888
-	-	351,178	1,123,949
<u>-</u>	<u>-</u>	<u>374,343</u>	<u>395,240</u>
78,065	769	726,399	1,601,077
-	-	151,483	151,483
181,886	45,311	267,913	495,110
-	-	318,075	318,075
<u>4,032,461</u>	<u>56,590</u>	<u>107,754</u>	<u>5,696,304</u>
<u>4,214,347</u>	<u>101,901</u>	<u>845,225</u>	<u>6,660,972</u>
<u>\$ 4,292,412</u>	<u>\$ 102,670</u>	<u>\$ 1,571,624</u>	<u>\$ 8,262,049</u>

Charter Township of Orion

	Special Revenue Funds					
	Keatington Mill Lake Lights Fund	Elkhorn Lake Fund	Square Lake Fund	Lake Orion Canal Fund	Compensated Absence Fund	Host Fee Fund
Revenue						
Taxes and penalties	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Eagle Valley fees	-	-	-	-	-	409,915
Interest	-	-	-	-	-	16,154
Special assessments	1,846	6,927	18,186	7,200	-	-
Other	-	-	-	-	-	-
Total revenue	1,846	6,927	18,186	7,200	-	426,069
Expenditures						
Utilities	1,846	-	15,636	-	-	-
Repairs and maintenance	-	6,927	-	13,050	-	-
Capital outlay	-	-	-	-	-	-
Miscellaneous expenditures	-	-	-	-	-	3,140
Total expenditures	1,846	6,927	15,636	13,050	-	3,140
Excess of Revenue Over (Under) Expenditures	-	-	2,550	(5,850)	-	422,929
Other Financing Sources (Uses)						
Operating transfer in	-	-	-	-	-	-
Operating transfer out	-	-	-	-	-	(500,000)
Total other financing sources (uses)	-	-	-	-	-	(500,000)
Net Change in Fund Balances	-	-	2,550	(5,850)	-	(77,071)
Fund Balances - January 1, 2003	812	73	10,012	7,500	50,000	1,511,473
Fund Balances - December 31, 2003	<u>\$ 812</u>	<u>\$ 73</u>	<u>\$ 12,562</u>	<u>\$ 1,650</u>	<u>\$ 50,000</u>	<u>\$ 1,434,402</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended December 31, 2003

Capital Projects Funds			
Capital Improvement Fund	Friendship Park Fund	Safety Path Improvement Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 363,644	\$ 363,644
-	-	-	409,915
1,471	-	8,241	25,866
-	-	-	34,159
-	29,600	38,111	67,711
1,471	29,600	409,996	901,295
-	-	-	17,482
-	-	-	19,977
654,986	27,528	6,793	689,307
-	-	52,516	55,656
654,986	27,528	59,309	782,422
(653,515)	2,072	350,687	118,873
527,418	-	-	527,418
-	-	(24,355)	(524,355)
527,418	-	(24,355)	3,063
(126,097)	2,072	326,332	121,936
4,340,444	99,829	518,893	6,539,036
<u>\$ 4,214,347</u>	<u>\$ 101,901</u>	<u>\$ 845,225</u>	<u>\$ 6,660,972</u>

Charter Township of Orion

Other Supplemental Information Combining Statement of Net Assets Agency Funds December 31, 2003

	Agency Funds		
	Trust and Agency Fund	Tax Collection Fund	Totals
Assets - Cash	<u>\$ 1,811,776</u>	<u>\$ 2,323,807</u>	<u>\$ 4,135,583</u>
Liabilities			
Due to other governmental units	\$ -	\$ 2,295,369	\$ 2,295,369
Deposits and building bonds	1,806,016	-	1,806,016
Other liabilities	<u>5,760</u>	<u>28,438</u>	<u>34,198</u>
Total liabilities	<u>\$ 1,811,776</u>	<u>\$ 2,323,807</u>	<u>\$ 4,135,583</u>

April 15, 2004

Board of Trustee
Charter Township of Orion
2525 Joslyn Road
Lake Orion, MI 48360

Dear Board Members:

We have recently completed our audit of the financial statements for the Charter Township of Orion for the year ended December 31, 2003. As a result of our audit, we offer the following observations and comments for your consideration:

GASB 34 - NEW FINANCIAL STATEMENT FORMAT

Over the last several years, we have discussed the pending implementation of Governmental Accounting Standards Board (GASB) 34 with the Township. This new accounting standard was adopted this year. It significantly impacts the format of the Township's financial statements. The expected benefits of the new model include improved comparability of financial statements between communities, and a better matching of the current year's revenue sources to the full cost of services provided during that year. The information that was previously provided in your financial statements has been retained in the new financial statement format, however, in a slightly different presentation. In addition, the following major items have been added:

- A "Management's Discussion and Analysis" section
- Entity-wide financial statements (balance sheet and operating statement) prepared on a full accrual basis. There are two columns, one for governmental activities and one for enterprise activities
- Capital assets and their related depreciation are now reported in your governmental activities
- Infrastructure assets (such as the Township's safety path systems) are now also capitalized and depreciated

Adopting this new pronouncement has been quite an effort, especially for the Township's accounting department. We commend the staff on all of their hard work!

INVESTMENT RECONCILIATIONS

The Township currently has over \$63 million in cash and investments under its control. In order to decrease risk and safely optimize investment returns, the Township Treasurer has invested these funds at many different financial institutions. Given the sheer number of outstanding investments and the related level of activity, it is important to ensure that these investments are tracked. The Treasurer is currently tracking the investments on a spreadsheet. In addition, the Township accountant is also tracking these investments in order to appropriately record them on the Township's general ledger. Certain information is being provided to the accounting department however, the timeliness with which complete information is received by the accounting department does not always facilitate accurate interim financial reporting. In addition, periodically, the two departments should reconcile their respective records. We encourage both departments to work together to establish a timelier and more effective investment reconciliation process.

REMOTE LOCATIONS

Despite the fact that most municipalities have formal internal control policies governing cash receipt procedures, they are often not fully implemented at cash receipt locations outside of the main municipal campus. Orion Township is no exception. As part of the audit, we reviewed the internal controls over the cash receipts being collected at the Senior Center. We noted several instances where internal controls over cash receipts at the Senior Center could be enhanced.

Currently, checks received at the Senior Center are not restrictively endorsed until they are deposited at the Township. Additionally, monies received are not stored in a safe or locked drawer while waiting to be deposited at the Township. We recommend utilizing a restrictive endorsement stamp upon receipt of each check and maintaining proper safeguards over funds by keeping them in a locked drawer or safe.

In addition, the Senior Center staff does not use a cash register or a pre-numbered cash receipting system. In addition, the Treasurer's office does not receive copies of receipts to reconcile to the cash being remitted. We also noted that deposits are held at the Senior Center for varying periods of time - anywhere from weeks to months - before being delivered to the Treasurer's office. We recommend the following:

- Utilization of cash registers that have z-tape (or similar) capabilities or utilization of pre-numbered receipts at the Senior Center
- Remitting of remote location z-tape or pre-numbered receipts with the cash summary reports to the Treasurer's office for reconciliation
- Timely and consistent remittance of cash receipts to the Treasurer's office

The implementation of these additional procedures will help to ensure the entirety of the funds being collected are appropriately accounted for.

STATE SHARED REVENUE

Municipalities in Michigan have and will continue to feel the effects of the slow down in the State's economy. State shared revenue accounted for approximately 43% of the Township's total General Fund revenue for the calendar year ended December 31, 2003. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

The following depicts the Township's actual and estimated revenue sharing payments over a five year period - from the State's fiscal year ending September 30, 2001 through the fiscal year ending September 30, 2005.

STATE SHARED REVENUE (CONTINUED)

	Actual FY 2001	Actual FY 2002	Actual FY 2003	Estimated FY 2004	Estimated FY 2005
Constitutional	\$ 1,995,306	\$ 2,015,629	\$ 2,049,754	\$ 2,058,858	\$ 2,147,723
Statutory	601,481	561,979	475,663	228,993	124,939
Total payments	<u>\$ 2,596,787</u>	<u>\$ 2,577,608</u>	<u>\$ 2,525,417</u>	<u>\$ 2,287,851</u>	<u>\$ 2,272,662</u>
Dollar change		\$ (19,179)	\$ (52,191)	\$ (237,566)	\$ (15,189)
Percentage change		-0.74%	-2.02%	-9.41%	-0.66%

While Orion Township's constitutional revenue sharing payments have been increasing slightly each year, the statutory piece of revenue sharing has dropped almost \$500,000 since 2001. For the State's fiscal year 04/05, the Governor has proposed to hold the line on revenue sharing – meaning that FY 04/05 levels will equal FY 03/04 levels – but only for cities, villages and townships. As you can see, the proposed revenue sharing for Orion Township for the State's fiscal year ending September 30, 2005 is \$2,272,662 which represents a reduction of approximately \$15,100 from the estimated amount for the State's fiscal year ending September 30, 2004.

Although sales tax revenue would support an increase to state shared revenue payments, the State's budget situation remains troublesome at best. It is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the Township to be conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

PROPERTY TAXES

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is as follows:

2004	2.3%	1999	1.6%
2003	1.5%	1998	2.7%
2002	3.2%	1997	2.8%
2001	3.2%	1996	2.8%
2000	1.9%	1995	2.6%

The 2003 inflation factor, which is the lowest level of inflation in the last ten years, is being used for property taxes levied in the Township's calendar year ended December 31, 2004. As indicated above, growth in existing property is significantly limited due to Proposal A. This factor should be considered when the Township is involved in long-term financial planning.

PROPERTY TAXES (CONTINUED)

The Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the Township. In general terms, if growth in the Township's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the Township to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the Township's existing property tax base was less than inflation, the Headlee Amendment allowed the Township to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A, the Township is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. The charter mills are 1.0000 verses the Headlee limited mills of .9551.

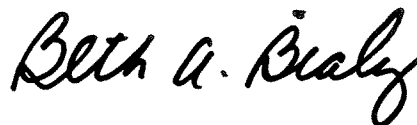
MUNICIPAL FINANCE ACT REVISIONS – REMINDER

The Municipal Finance Act was amended during 2001. Beginning after March 2002, communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the Township's year end (which means for Orion Township that filing is due June 30, 2004) and is good for one year thereafter.

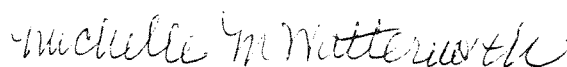
We would like to thank the Township personnel for the courtesy and assistance extended to us during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Beth A. Bialy



Michelle M. Watterworth